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## Soviet Policies Versus International Cartels: Four Historical Case Studies

When this study was originally prepared nearly thirty years ago, it was part of a larger government memorandum. As such it was written within a framework of exploring problems of economic relations with the USSR after the war, with the expectation of a large and mutually beneficial trade in mind. At the time, I presented a general analysis of these problems in a longish pamphlet.<sup>1</sup> I was unable, however, in that publication to touch upon the problem of Soviet policies on, and relations with, international cartels, because the government document in question was classified as "secret," as was the information I had obtained in the course of preparing it. The recent declassification of that document by both the Department of State and the Department of Justice (from whose Antitrust Division a large body of valuable information had been received) has caused me to consider publication of the material on the four case studies of Soviet participation in international cartels—to wit, the cases concerning matches, phosphates, potash, and platinum. I feel that such publication is warranted essentially for two reasons.

One of these reasons refers to the role of ideology in the Soviet system of government. It was while working on the memorandum in question that the importance of the problem of Pragmatism vs. Ideology in Soviet policies first forced itself on my mind as a very significant aspect of Soviet history. Obviously, Soviet collaboration with bodies which ideologically were always presented as the strongest emanations of the detested "monopoly capitalism" was bound to raise the problem, and the references to dialectical contradictions in historical development were unconvincing and entirely insufficient to disguise the difficulty, let alone to resolve it. Pursuing this point over the years, I have been able to form a broad view according to which Soviet policies, both internal and external, both economic and noneconomic, were essentially determined either by the exigencies of given situations, or, much more generally, by the mechanics of the exercise of dictatorial power. In this connection, the function of ideology was not to determine but to vindicate policies which were embarked upon and pursued for reasons other than ideology. In the process, ideology naturally lost its pristine purity and consistency and became a hybrid complex, a mere container in which policies and

1. Alexander Gerschenkron, *Economic Relations with the U.S.S.R.* (New York, 1945).

quotations were rotated to produce the impression of chemical homogeneity.<sup>2</sup> I believe that the following case studies should be read with this basic problem and these connections in mind and that they do shed some additional light on them.

The second reason is perhaps more narrow, but carries the weight that must be attributed to an addition to the stock of our empirical knowledge of historical events in a field in which access to knowledge has been greatly impeded by the very nature of the subject matter. International cartels, their negotiations and operations, are naturally shrouded in secrecy. In this case, the fact that my study was done at the instance of the U.S. government, and in addition was done during the war, helped greatly to pierce the veil of secrecy. On the one hand, confidential government information was made available; on the other, men who had connections with trade associations were willing to provide enlightenment, as soon as they were assured that their names would not be divulged.

From these circumstances flow two contradictory peculiarities of the following study as a piece of scholarly research. Its value is increased because it contains facts some of which would be difficult to obtain, or altogether unobtainable, in normal times. These positive features, however, are counterbalanced by a negative one. Whenever information was gleaned from published sources—periodicals and books—proper references could be and are given. But no source references could be given to information received from government officials and from conversations with private persons. In fact, as far as the latter are concerned, I could not even identify them anymore, if I wished to do so.

This is indeed an unusual situation, which calls upon the reader to place an amount of confidence in the researcher's judgment and his evaluation of the reliability of the material obtained which is certainly in excess of normal. I should have refrained from placing both the readers and myself in what undoubtedly is a delicate position, had I not considered that publication of the study was likely to cause men who have additional and possibly divergent knowledge of the subject to divulge it publicly. This may, and one hopes would, happen in several respects. Further information may transpire with regard to the period treated in my study, which is the twenties and the thirties. But there may also be worthwhile data for the years that have

2. For my elaboration of this view see primarily Alexander Gerschenkron, "Realism and Utopia in Russian Economic Thought," *Economic Backwardness in Historical Perspective* (Cambridge, Mass., 1962), pp. 188-97; "Reflections on Ideology as a Methodological and Historical Problem" and "The Stability of Dictatorships," *Continuity in History and Other Essays* (Cambridge, Mass., 1968), pp. 57-73 and 313-43; and "Ideology as a System Determinant" in Alexander Eckstein, ed., *Comparison of Economic Systems* (Berkeley, 1971), pp. 269-89 and 297-99.

elapsed since the war. Moreover, there is another and even more important consideration. There has never been any intimation that the four cases discussed in the study exhaust the list of Soviet participations in international cartels. In fact, the contrary is almost surely true. I have seen references to Soviet dealings in such bodies as the aluminum cartel or the soda ash cartel. For all I know, the list could be considerably lengthened. Policies of the Soviet Union as a buyer from international cartels (for instance, the steel cartel), rather than as a seller or a participant, may constitute a related aspect of the whole complex. At any rate, if the present study stimulates someone with knowledge in the field to come forward with relevant information on matters that go far beyond the scope of things I have treated, I should consider this publication well justified despite the obvious disabilities that are attached to it from the point of view of the established way of scholarly presentation.

As the reader of the following cases will notice, the certainty of the information offered varies considerably. It is greatest in the case of matches; it is less satisfactory in the case of platinum; and is reduced to informed suppositions, if not speculations, in the other two cases.

### *Matches*

*International Match Agreements.* In 1935 Russia and the Japanese and Swedish match companies concluded a tripartite agreement on the sale of matches in the United States. Because more data were available than is usual in such cases, the account of this agreement and its aftermath made it possible to establish beyond doubt the fact of Russian participation in an international agreement and to acquire an insight into Russian policies and practices in dealing with cartels.

International agreements on sales of matches had been of long standing, having begun at the turn of the century. In the years 1901–3 the leading producers in the United States, Great Britain, and Sweden made agreements apportioning the principal world markets among themselves and promising not to compete against each other. This organization was disrupted by the First World War. The postwar match market was characterized by the development of Ivar Kreuger's Swedish monopolistic match empire. In 1920 one of Kreuger's leading match companies, the Svenska Tändstick Aktiebolaget (STAB), entered into a noncompetitive agreement with the Diamond Match Company, the largest producer in the United States, in regard to the American and the South American markets. In 1927 STAB, with the participation of the Diamond Match Company, made a noncompetitive agreement with Bryant and May, Ltd., the leading British producer, under the terms of which the markets of the British Empire were distributed between

the British and the Swedes. The American and the British producers in the meantime had maintained their pact of 1901.

Even before the collapse of Kreuger's empire in 1932, Russia's growing match industry began to compete in world markets. Kreuger's successor, Ljungberg, became interested in an agreement on the United States market with Russia and with Japan, whose match industry had broken away from Kreuger's control and also was a competitor.

*Russian Matches.* Before the outbreak of the Second World War, Russia ranked third as an exporter of matches to the world market.<sup>3</sup> Sweden, who ranked first, produced 20 million gross boxes of matches and exported 18 million. Japan produced 20 million gross boxes and exported 16 million. The USSR produced 17 million and exported 6 million. Aggregate production of these three countries amounted to about 70 percent of the total world output of matches. Their share in world exports of matches was considerably higher.

Apart from fancy products, the three main varieties of matches were the "strike anywhere" or kitchen match, the "book match" or paper match, and the "strike-on-box" or safety match. There was a degree of independence among the markets of these three varieties. The safety match was the main article of international trade and was the subject of the agreements mentioned earlier. Also it was almost the only variety produced in Russia.

Russia possessed vast amounts of the raw materials used in the match industry (aspen wood and chemicals) and was able to produce them under favorable conditions. Not undisputed, however, was the question of the quality of Russian matches, which was repeatedly claimed to be rather low—at any rate lower than the standard of the American consumer. The splint of the Russian match was less smooth than the Swedish or American splints; Russian matches had a certain percentage of "hesitators" (matches that were slow to ignite); and Russian matches in some cases might not withstand storage in a humid climate as well as the Swedish or American matches did. But these shortcomings did not prevent Russian matches from competing successfully in the American market. If the low quality allegations had been entirely correct, the behavior of Russia's competitors and their serious attempts to reach an agreement with Russia would have been difficult to understand. The truth probably was that from a certain quality level upward the average consumer was indifferent to the finer distinctions in quality, and that the Russian matches were, on the whole, well above that level. That Russian matches were sold at prices appreciably below those of Swedish matches might be explained by a reluctance on the part of some traders to purchase matches made in Communist Russia.

3. U.S. Tariff Commission, Confidential report by J. A. Bergen, "Matches, Match Boxes, and Match Box Skillets," August 1943.

*Restrictions on Match Imports in the United States.* Imports of Russian matches into this country began in 1928. In that year Russia exported to the United States the appreciable quantity of 404,800 gross boxes. The next year this figure exceeded one million gross boxes. On May 19, 1930, the importation of matches from Russia was interrupted by the Treasury Department. Under the authority of the Antidumping Act this department issued a finding of dumping on plain-stem strike-on-box safety matches made in Soviet Russia.<sup>4</sup> Though the Russian prices were lower than the Swedish ones, the differential was apparently not the reason for the enactment of the antidumping proceedings. About a year later similar proceedings were initiated against eight other countries including Sweden but not Japan. The finding against Sweden was revoked on August 12, 1934; the one against Russian-made matches was revoked on January 24, 1934, after the recognition of Russia in November 1933. The Treasury Department was satisfied that there was no evidence of foreign-market value or cost of production higher than the exporters' sales price.<sup>5</sup> In the case of other countries, findings were revoked as late as December 1938.

It had been suggested that the enactment of proceedings against Russia was the result of the general fear of Russian competition on the part of domestic manufacturers. As far as Sweden and the remaining countries (all of them controlled by Sweden) were concerned, the enactment resulted from the Diamond Match Company's desire to apply pressure on Kreuger in order to curb his penetration and expansion in the American market.

It may be added that the Tariff Act of 1930 provided for a 150 percent increase in duty on plain-stem matches (from 8 to 20 cents per gross). The tariff, however, left a loophole, inasmuch as the duty on matches with a colored or stained stem remained at 40 percent *ad valorem*. The fall in prices during the depression created a differential between the tariff burden on plain-stem matches and matches with a colored stem, duty on the former having been almost three times higher. When the Japanese increased their match exports to the United States, they began to export matches with colored stems. Thereupon Congress in the Revenue Act of 1934 increased the excise tax on colored-stem matches from 2 to 5 cents a thousand while leaving the tax on plain-stem matches at 2 cents. The increase of 3 cents was equivalent to a duty of 16.5 cents per gross box, which placed the colored-stem match at a disadvantage. As a result, the importation of colored-stem matches was discontinued. It appears that, encouraged by this indirect revision of the tariff act, domestic match producers began to hope that a direct increase

4. Treasury Decision no. 44037.

5. Treasury Decision no. 46853.

Table 1. *Imports of Matches into the United States in 1934*

Exporting Country	Plain Stem			Colored Stem		
	Quantity (gross boxes)	Total value (dollars)	Value per box (cents)	Quantity (gross boxes)	Total value (dollars)	Value per box (cents)
Sweden	485,850	112,828	23.2	54,790	21,281	38.8
Soviet Union	205,835	31,248	15.2	404,905	62,897	15.5
Japan	116,286	20,485	17.6	1,387,247	222,453	16.0

*Source:* U.S. Tariff Commission, Confidential report by J. A. Bergen, "Matches, Match Boxes, and Match Box Skillets," August 1943.

in duty on matches might be obtainable. In 1934 the Swedes became very apprehensive lest such an increase be effectuated.

Russian imports of matches into the United States ceased when anti-dumping proceedings were enacted. Apparently the Russians were unwilling to incur the cost of bond premiums and the possible obligation to pay the antidumping duties. In addition, they had found a way to circumvent the antidumping regulations. According to the Tariff Commission, practically all imports of matches from Germany and the Netherlands during the period were matches manufactured in Russia. The imports from Germany were considerable. For reasons given above, the great bulk of those matches were of the colored-stem variety. When the dumping finding was vacated in 1934, imports from Germany declined and direct importation from Russia was resumed.

In 1934 Russia exported to the United States 205,835 gross boxes of plain-stem matches and 404,905 gross boxes of colored-stem matches, a total of 610,740 boxes, which amounted to about one-fifth of all match imports in that year, and almost equaled the imports from Sweden. Japan was the largest seller and accounted for about 50 percent of the total imports of about 3 million gross boxes. Prices of both the Russian and Japanese matches were very low, as may be seen in table 1.

Three factors—the fear of an impending further increase in tariffs, the return of the Russians to the United States market, and the continuation of large Japanese imports—made STAB and its representatives in this country anxious to reach an agreement between the three leading exporters with a view to restricting exports, increasing prices, and thus also diminishing the domestic pressure in the United States for an increase in tariff duties.

*Negotiations of the Agreement.* The Swedish representative in the United States became and remained, throughout the period of negotiations, the driving force behind the idea of organizing foreign competition on the American market. This was understandable. The Swedes, because of their

agreement with the Diamond Match Company, were interested in the stability of sales conditions in the United States. Having attained a privileged position, they were loath to part with it, and had more to lose than their competitors.

The Swedish plan, as formulated early in 1934, was to conclude an agreement with the Japanese under the terms of which exporters of both countries would be accorded equal quantities of matches to be placed on the American market. The Russians would be invited to join as junior partners with a much smaller allocation. It was planned to have the total imports from the three countries limited to 100,000 large boxes (5 million gross boxes). The Swedish representative in New York proposed to his superior, Ljungberg, a distribution of annual exports of 40,000 boxes each for Sweden and Japan, and of 20,000 boxes for Russia. Thereupon the Swedes got in touch with Amtorg in New York. They were unpleasantly surprised when the Russians flatly demanded to be allotted 40,000 boxes of matches (2 million gross boxes) as their annual export quota. Ljungberg described the claim as "pure bluff," and expressed confidence that it would not be difficult to explain to the Russians that their demands appeared preposterous.

Prolonged negotiations about the export quotas followed. The position taken by the Russians and their bargaining tactics shed some light on their policies toward cartel agreements prevailing at the time. The main underlying fact, as brought out by the negotiations and the subsequent Russian policies, was that the Russians had no direct interest in a restrictive agreement with respect to their exports to the United States market. It appears that they were, at least at that time, eager to introduce their matches to the American market and sell as many as possible. The volume of exports was more important to them than the higher prices they might obtain as a result of an agreement with foreign producers. On the other hand, they had an interest in seeing their competitors limit their sales to the United States if such a limitation should enable them to sell at the other exporters' expense. Claims have been made that the Russians from the outset intended to delay the agreement as long as possible, and then not abide too rigidly by its stipulations. It should be added that the Russians apparently were not much disturbed by the Swedish apprehensions concerning possible rise in tariffs. At that time, expectations with regard to possible American exports to Russia were still running high in this country, and the Russians did not consider it probable that measures would be taken against their exports to the United States. This was an additional factor reinforcing the Russian bargaining position.

Finally, whether or not the Russians intended to live up to the terms of the agreement, they appeared to be quite interested at the time in obtaining recognition from the Swedes and the Japanese of the equality of their stand-

ing in the American market. This may have been simply a matter of prestige or a case of creating a precedent for future agreements to be concluded after the Russians had succeeded in familiarizing the American market with their products.

During the negotiations, which lasted for about a year, the Russians resorted to procrastination. The Russian negotiator would pretend illness or other engagements. From time to time he would make obviously disruptive counterproposals in order to gain time. The need to consult Moscow before making any decision on every minor point was likewise used to delay the negotiations.

Soon after the start of negotiations the Russians perceived that the Swedes were not only extremely interested in an agreement with them concerning the United States but were also anxious to conclude a general world cartel. In fact, Ljungberg, in a letter to his New York representative, stated in substance that the agreement for the United States should be regarded as a test case. Its successful conclusion would augur well for a general world agreement with the Russians. As soon as the Russians sensed this, they began to display to the Swedes an interest in the prospect of such a general agreement. They also asserted that the United States market was of only subsidiary interest to them.

This policy had a twofold effect: (1) The Swedes became inclined, as Ljungberg put it, to "leave a number of markets, which on account of the national policies or geographic situations were recognized as markets for Russian matches, severely alone." The struggle between the Swedes and the Russians was at the time confined to England, where it proceeded unabated. It was then that the Swedes endeavored to obtain an agreement with regard to England and an assurance that the Russians would not embark upon penetration into other Swedish-dominated markets. As later events showed, however, the Russians were not yet interested in a world cartel agreement, apparently for the same reason for which they were not interested in an agreement concerning the United States beyond recognition of equal status. (2) The other result of the Russians' feigning interest in a world agreement was the greater readiness of the Swedes to comply with the Russian demands in the United States agreement.

*The Agreement Between Swedish, Japanese, and Russian Producers.* The agreement was finally reached on February 7, 1935. The participants knew that an understanding the purpose of which was to restrain trade on the American market conflicted with the United States antitrust legislation. It was thought, however, that by observing three conditions American laws would not be violated: (1) the agreement should be signed by persons who were not residents of the United States; (2) it should be signed outside the



territory of the United States; and (3) it should not be "carried out" in the United States.

Obviously the first two conditions were easy to fulfill. The agreement was signed in London by the special representatives of the three parties: Svenska Tändstick Aktiebolaget, Sweden; Nihon Taihei Match Yushutsu Kumiai (Japanese Match Export Association for the USA), Kobe, Japan; and Mineralsilikat Export, Moscow. The third condition was more difficult. The parties came to the erroneous opinion that they would escape the provisions of the antitrust laws and that the agreement would not be "carried out" in the United States if it refrained from prescribing prices to U.S. importers and instead confined itself to an obligation to discontinue selling to importers who were reselling imported matches below certain minimum prices. The artificial nature of this construction was obvious. However, the Russians left this side of the matter entirely to the Swedes, declaring that they were "little interested in formalities." The agreement of February 7, 1935, was one of the acts of conspiracy charged by the U.S. Department of Justice in the case of the United States vs. Diamond Match Company et al., May 1, 1944. Amtorg was not named among the defendants.

The provisions of the agreement were as follows. Each of the parties concerned received an annual quota of 1.65 million gross, or 33,000 large boxes. Quarterly exports should as a rule not exceed 35 percent of this quantity. If matches produced by one of the three parties were sold in the United States at an unfair price, the producer in question would immediately discontinue sales to the person or persons responsible for such sales. This stipulation was followed by a definition of what was to be considered an unfair price. Evidence of the latter, it was agreed, would be constituted by direct or indirect sales of Japanese or Russian matches to a wholesaler at a net price that was less than 59 cents per gross at dock or warehouse in U.S. seaports, or 61 cents at points inland, freight paid. In the case of Swedish matches the lowest limit of "fair price" was 81 cents per gross, the differential denoting their higher quality. Special provisions were made to take care of a fall in prices of domestically produced matches. All parties undertook to prevent indirect shipments of their matches to the United States. The agreement was concluded for the remainder of 1935. It was to be automatically renewed for periods of six months unless notice was given first on September 30, 1935, and then in the middle of the six-months' periods.

It is easy to see that the quantitative stipulations of the agreement implied a notable success for Russian tactics. Originally, the Swedes were unwilling to grant the Russians even 20,000 large boxes. The final agreement of 33,000 boxes allotted the Russians was not much below the 40,000 boxes the Russians had requested at the beginning of the negotiations. The Russians even

succeeded in obtaining recognition of their equality with the other partners. In fact, they had secured a quota greatly in excess of their exports in 1934. It is true that they were not successful in achieving a lower minimum price for their matches as compared with the Japanese. But this part of the agreement must be appraised in the light of its aftermath (see below).

An interesting sidelight on the agreement is that the participants also agreed to address separate letters to the U.S. Department of State in which they stated that in order to relieve the pressure on the American markets they had decided voluntarily to limit their exports. The author had seen in a U.S. government agency office the text of the Swedish and Japanese letters but not that of the Russian letter, and it was not clear whether the Russians had actually dispatched the letter. The procedure was curious in two respects: first, the quotas agreed upon exceeded considerably the exports in 1934; second, an almost identically worded declaration received from three main exporting countries was bound to raise the question whether an agreement purporting restraints on American trade had been made. The lawyers of the three parties insisted on small differences in the wording of the letters in order to create the impression of independent action.<sup>6</sup>

*The Aftermath of the Agreement.* Less than three months after the signature of the match agreement an American-Swedish trade agreement was concluded which reduced the duty on imported matches from 20 to 17.5 cents per gross. Thus, instead of the increase that had been feared, there was actually a decrease of duties. To what extent this was attributable to the effect of the letters upon the State Department is a moot question. Apart from this, the agreement proved a failure—to the disappointment of the Swedes, who claimed that the failure was due to Russia's subsequent action.

First, the Russians did not raise prices to the level agreed upon. Their prices, the Swedes and Japanese charged, remained around 50 cents instead of 59 cents on the coast and 61 cents inland. When protests were lodged with Amtorg, the reply was that the low prices applied only to sales by wholesalers of Russian matches imported prior to the agreement, over which the Russians had no control. When asked to make the new prices public in a circular letter, the Russians at first procrastinated, then raised the price to 58 cents at any point in the United States. When asked to raise them by 1 or 3 cents respectively, they refused to do so and explained that increases in quick succession would discredit them in the eyes of the trade. Later the

6. Foreign governments and traders have occasionally announced voluntary restrictions on exports to the United States. Cotton goods and red pencils from Japan, shingles from Canada, and avocados from Cuba could be cited as examples. But in no case had there been a simultaneous and obviously coordinated announcement by producers in several countries.

Russians claimed that the lower price was justified by a reduction in the price of domestic safety matches. This apparently was correct, but the justifying circumstance followed rather than preceded the insufficient increase of prices. On the other hand, the Swedes and the Japanese charged that the Russians were still selling at the price of 51–52 cents.

The Japanese claimed that their sales were being rapidly reduced by Russian competition and that as a result the Japanese Match Exporters Association was near breakdown. They insisted on a formal protest in Moscow. The Swedes made strenuous efforts to dissuade them, because they were still hoping to reach a world agreement with the Russians, more specifically one concerning England. Although the agreement on the United States contained a clause providing for the denunciation of the pact by any of the signatories, it was not denounced on September 30, 1935. Wrangling about its observance or nonobservance continued unabated. The Russians were always quick to answer the accusations of the Japanese with counteraccusations. According to Swedish sources, the Russians were the main and the original violators of the agreement.

The Swedish hopes for a world agreement with the Russians did not materialize. The negotiations were in some respects a replica of the preceding negotiations with regard to the American market. Similar tactics of procrastination were used. Several meetings between the Swedes, the British, and the Russians took place. The question of quantities to be allotted led to hard bargaining. Finally, the negotiations were adjourned at the end of 1935 in order to be resumed shortly in Moscow. But early in 1936, to the surprise of the Swedes, the Russians entered into an independent arrangement with a British corporation, the Continental Match Distributors, Ltd., which was established for the purpose.

*The Agreement Between Amtorg and the Diamond Match Company.* The tripartite agreement was recognized to be a failure as early as the summer of 1935. After that year the initiative began to slip from the hands of the Swedes. In March 1936 a tentative agreement was reached by the Diamond Match Company with both the Japanese and the Russians. Two special companies were established: the Foreign Match Import Company and the Trans-Atlantic Import Company. The former was to handle the Japanese matches and the latter the Russian. In other words, the Diamond Match Company organized imports from Russia and from Japan upon the pattern of its agreement with Sweden.

Information was lacking on the exact terms of these agreements of the Diamond Match Company. Yet it seemed that this company succeeded in changing what had been till then the basic attitude of the Russians. For by establishing an exclusive agency for the purchase of Russian matches, the

Diamond Match Company apparently guaranteed the Russians such a large quota that they surrendered their interest in a low price for their matches and abandoned the idea of penetrating the American market on any large scale. It appeared that the Diamond Match Company had granted the Russians a price of 60 cents per gross as against 55 cents per gross for the Japanese matches. In 1939 these prices were reduced to 55 and 50 cents, respectively.

At the same time it appeared that the Diamond Match Company began to pursue the policy of storing up Russian matches and selling them only sporadically in regions in which the company was less interested. This policy apparently reached its climax after the outbreak of the war when the company began to sell Russian matches in South America—for example, in Bolivia. In that country Russian matches were sold apparently at a loss, namely, for 45 cents a gross. At the same time the Diamond Match Company felt free to state that the quality of Russian matches did not permit their marketing in the United States.

It seems that the story of the tripartite agreement and the abortive world agreement may be considered an illustration of the extreme elasticity of the Russian prewar policies toward cartels when they were more interested in launching their commodity in foreign markets than in obtaining a higher price for it.

### *Phosphates*

*The International Phosphate Cartel.* Before the Second World War the bulk of deliveries of phosphates to the European market originated in French North Africa. The exporting colonies, listed in the order of their importance, were Tunisia, Morocco, and Algeria. The next important source was Florida. The phosphate deposits in the Pacific Islands (Nauru, Ocean) served the needs of the Pacific region and could be disregarded for our purposes. But Egypt and the Dutch West Indies acquired some minor importance. The bulk of Egypt's production, under Italian control, was exported to Italy.

In 1933 the North African producers formed a combination, which was followed by an agreement between the combined North African group and the Phosphate Export Association representing Florida Land Pebble Phosphates of the United States. Under the terms of this agreement deliveries to Europe were divided between the North African and the American groups according to the ratio of 84 to 16. Although somewhat cryptically phrased in order to evade the stipulations of the Webb-Pomerene Act, the agreement provided that the North African group would abstain from exports to the United States. In 1934 this agreement was supplemented by granting the Dutch West Indian producers a 2.25 percent share in the European market. In 1936 an annual quota of 185,000 metric tons was accorded to Egypt with

the provision that no more than 100,000 metric tons could be sold in countries other than Italy.

The effect of these agreements was the assured maintenance of the European price of phosphates on a level which considerably exceeded the domestic American price. In 1933 this differential had dropped to 84 cents, but it rose to \$1.72 in 1934 and continued to rise until in 1938 the differential amounted to almost four dollars; the domestic selling price, f.o.b. in Florida, was \$2.26 in June 1938, while the average export price of the Phosphate Export Association was only a few cents below six dollars.

*Soviet Reserves and Exports.* According to Soviet statistics, in the 1930s the Soviet Union held first place in the world with respect to the reserves of apatites and second place with respect to reserves of apatites and phosphate rock. Prospecting was still in the process, and additional reserves were expected to be discovered. The most important deposits were located on the Kola Peninsula, near the port of Murmansk, and were easily accessible. Output at these deposits reached 2,600,000 metric tons in 1940, which was more than 40 percent of Europe's total annual imports in the late thirties. This comparison is significant in that a large and apparently growing part of the Kola production was exported.

Russian exports rose rapidly from small amounts in 1930 to almost 600,000 metric tons in 1937 and 1938 (see table 2). In 1932, when Russian exports were still very small, a shipment of 6,000 tons arrived in Baltimore. This shipment produced great excitement among the American producers. It led immediately to the supposition that Russian sales in the United States implied some understanding between the Russian and the North African producers. It was argued that it would have been more rational for the Russians to sell in Europe, where the price was higher than in the United States. Accordingly, the Russians were said to have agreed to abstain from sales on the European market. The weakness of the argument was obvious. First of all, the price differential between the United States and Europe was then at its minimum. Second, in the same year, the Russians exported phosphates to European countries, primarily Germany and Belgium, in quantities considerably in excess of their shipments to the United States.

It appeared that in mining phosphates the Russians used the American flotation process. The application of this process was said to have doubled the efficiency of production in Florida, and was covered by a U.S. patent. The Russians had negotiated for the patent and were shown detailed blueprints of the process. The negotiations came to nought, but shortly afterwards the Russians allegedly began to use the process. Therefore, an injunction was issued against the Baltimore shipment of phosphates. The U.S. Tariff Commission decided that the importation constituted infringement of the "Unfair

Table 2. *Exports of Russian Phosphates, 1930–39*

Year	Metric Tons
1930	13,600
1931	7,400
1932	45,100
1933	284,000
1934	415,000
1935	386,000
1936	507,000
1937	598,000
1938	591,000
1939	417,000

*Sources:* Figures for 1930–36 are taken from *Vneshniaia torgovlia za 20 let* (Moscow, 1939). For subsequent years the data of the Phosphate Export Association have been used.

Trade Practices Section” of the Tariff Act, but this decision was overruled by the Court of Customs and Patents Appeals. Thereupon, Congressman Peterman of Florida introduced a bill to prohibit imports of commodities produced with the help of an unlawfully acquired U.S. patent. Several years later, in 1940, the bill was passed and entered the Statutes as an amendment to Section 337 of the Tariff Act of 1930.

In the interval it had been continually claimed by the supporters of the bill that the Russian shipments would “seriously injure or even destroy” the domestic phosphate industry in the United States. Asked at a hearing how imports of six thousand tons could be expected to have this effect on an industry that produced two to three million tons a year, the reply was that it was the possible future Russian exports that caused the apprehension.<sup>7</sup>

*Russian Interest in the Cartel.* A former executive of the Phosphate Export Association described the situation regarding Russian phosphates as follows. Approximately one-half of phosphates exported from Russia were in a form which prohibited their use for the production of superphosphates. They could be used only by steel mills for the production of Thomas slag. In this field there was no competition between the Russians and non-Russian producers. From the point of view of the latter, “it was theirs for the asking.” The remaining 50 percent of the Russian exports were high in  $P_2O_5$  content, yet were delivered in a form which resisted the application of sulphuric acid. The conclusion was that the Russian competition was never considered a serious danger to American and North African interests. The same person stressed, however, that the Russians had made vigorous efforts to be admitted to the cartel. At one point (apparently in 1936 or early 1937) they proposed

7. Hearings before the Committee on Patents, Subcommittee on Phosphate Rock Process Patents, House of Representatives, H.R. 7851, May 5, 1938.

complete withdrawal from the market, which would make it possible to increase the selling price by one dollar. In return for this withdrawal the Russians purportedly claimed an indemnity of 50 percent of the increase, which would amount to about \$2,250,000 per year.

Very likely this proposal was in fact made. It also appeared possible that Russia joined the cartel. The picture of Russians as negligible competitors in phosphates was at variance with the apprehensions aroused among American producers by the Russian shipment of 1932 and their persistent efforts to erect a legal bar against further imports from Russia. It was, furthermore, at variance with the fact of growing Russian exports to Europe despite the presence of a cartel. Finally, it would seem that the proposal of the Russians appeared plausible in two possible circumstances: (1) if the Russians had been engaged in price cutting, or (2) if the Russians had already had a quota allocated to them and were offering to forgo its use in return for a payment.

There seems to be no evidence in support of the first alternative, as shown by some computations of average prices in Germany and Belgium. In Germany the average price of imports from all other countries exceeded 20 marks per ton. But in the following years the Russian prices rose and exceeded the average prices of imports from Algeria. For Belgium, a comparison between Russian and Tunisian prices shows a similar development. (See table 3.) The disparities in 1935 and 1936 may well have been partly the result of the Belgian and French devaluations. While these prices were significant only on the assumption of little or no change in grades of phosphates imported, they suggested that the Russians had not been selling their exports below the prices of the cartel.

Likewise, the view that the Russians were in agreement with the cartel is not refuted by the fact that they increased their exports in comparison to other cartel countries. In 1933 the Russian share was 5.82 percent. In 1934

Table 3. *Average Price of Phosphate Imports into Germany and Belgium*

Imports into Germany (Reichsmark per metric ton)			Imports into Belgium (Belgian francs per metric ton)		
Year	From Algeria	From Russia	Year	From Tunisia	From Russia
1935	18.85	16.26	1933	112	113
1936	17.95	17.39	1934	117	108
1937	19.27	19.30	1935	121	142
1938	19.94	20.77	1936	168	201
			1937	175	177

Sources: For Germany: *Statistisches Jahrbuch für das Deutsche Reich, 1937, 1938*. For Belgium: Office Central de Statistique de Belgique, *Bulletin Mensuel du Commerce* (Brussels, 1933-38).

and 1935 it was 8 percent. In 1936 it rose to 10 percent, and in 1937 and 1938 it was just below 12 percent. The impression from rather evasive answers on this question is that in 1936 or early 1937, when the Russian proposal was made, an increase in the Russian quota from 10 to 12 percent was under consideration. This negotiation may have provided the background for what the representative of the Phosphate Export Association termed the "unique Russian offer."

### *Potash*

*International Agreements.* Little information was available on the Russian relations with the potash cartel, although the existence of relations is generally indicated. After the First World War, Germany's monopoly of potash was broken when Alsace-Lorraine was ceded to France. In 1924–26 a Franco-German potash cartel was formed which restored monopoly to the potash market. In the thirties the position of the cartel was jeopardized by the appearance of new producers, first in Poland, then in Spain, the United States, and Palestine. At one time, the cartel appeared on the verge of a breakdown.<sup>8</sup> However, it succeeded in assimilating the newcomers either by granting them direct membership or by reaching agreements which were more limited in scope.

*Russian Potash Production.* Russia's potash deposits were discovered in 1925. The location was in the region of Solikamsk-Beresniki, west of the Urals (about a hundred miles north of Molotov). Production began by 1930, and the first deliveries of potash salts to domestic agriculture followed one year later. The estimates of the Russian potash reserves of the time seemed to place Russia in the first place among potash mining countries. Production developed, in terms of  $K_2O$ , as follows: 139,000 metric tons in 1934; 173,000 in 1935; 225,000 in 1936; 266,000 in 1937; and 275,000 in 1938 (*Minerals Yearbook*, 1936, p. 1017; 1939, p. 1398). In 1938 the Russian output represented somewhat less than 9 percent of total world production.

It had been generally assumed that Russia would abstain from exports because of the considerable needs of domestic agriculture and because of the unfavorable location of the mines. The surprise was great, therefore, when in 1934, coincident with the Spanish inroads into the markets, exports of Russian potash made their appearance in Holland, Czechoslovakia, and Bulgaria. The prices quoted were considerably below those of the cartel; the quantities exported were modest (17,000 metric tons). In the following years the exports were even smaller; in 1937, the last year for which figures are

8. *Economist* (London), Mar. 24, 1934, p. 681.



available, they were reduced by about three-quarters, and amounted to about 1.5 percent of the Russian output.

The considerations which prompted the Russian exports were not known. The year 1934 was on the whole beyond the period when urgent need of foreign exchange, coupled with inefficiency of trading methods, had caused the Russians to sell their exports at ruinous prices. It is possible that they were trying to avail themselves of the uncertain market situation in order to secure admittance to the cartel.

*Russia's Participation in the Cartel.* The first rumors about conclusion of an agreement between Russia and the cartel spread as early as May 1935.<sup>9</sup> One year later it was reported that Russia had ceased to cut prices "because of fears that continuance of this practice would lead to reprisals in the shape of higher import duties and more rigid import quotas."<sup>10</sup> It was difficult to see why potash-importing countries should have felt impelled to retaliate against imports from Russia for no other reason than to please the cartel. Nevertheless, the sentence quoted above made the usual rounds through the literature on the subject. One month later the *Economist*, without mentioning Russia, reported agreements with outsiders who, without joining the cartel, had undertaken "not to cut prices."<sup>11</sup> This was taken to refer to Russia, and later the supposition was borne out by the statement of J. W. Turrentine, president of the American Potash Institute. Turrentine wrote in 1943: "On the few occasions when Russian potash appeared for sale at American ports, apparently little regard was paid to price, the cargo being knocked down to the highest bidder. This trade anomaly was subsequently corrected by acceptance of the European Potash Cartel. Thus, in effect, still another member of this useful organization was acquired, unquestionably, however, without any formal understanding as to membership."<sup>12</sup> This statement apparently meant that without allocating a formal quota to the Russians the cartel declared itself ready to purchase their exports of potash. The low volume of Russian sales may well have made the agreement mutually satisfactory.

### *Platinum*

*International Agreements.* The control of the production and sale of platinum by a private international organization began in 1903 when the domination of the world market by a single English firm was supplanted by an international syndicate. As a consequence the price of the metal rose almost

9. *Economist*, May 25, 1935, p. 1231.

10. *Economist*, May 9, 1936, p. 347.

11. *Economist*, June 6, 1936, p. 589.

12. J. W. Turrentine, *Potash in North America* (New York, 1943), p. 36.

immediately from about \$20 to \$45 per Troy ounce fine. At that time 90 percent of the world output was produced by Russia, the remainder by Colombia.

The syndicate was disrupted by the First World War and production of platinum in Russia was virtually discontinued during the Revolution. On the other hand, production began in South Africa and Canada. The latter country was destined to achieve the dominant position in the industry as a low-cost producer.

*Russian Participation.* Although precise information was lacking, it appeared that by 1924–25 international control of the market through a syndicate was again in effect. The price soared to £29 (\$128) per Troy ounce fine in 1924. At this level it exceeded the price of gold by 600 percent. The cartel apportioned sales quotas to Colombia, Canada, and South Africa. There was no precise information on Russian participation at the time. It was believed by at least one authority that Russian sales were probably limited by the cartel,<sup>13</sup> while another believed that Russia was a formal member at least up to 1927.<sup>14</sup>

Because of considerable shifts in the distribution of world production in the following years, the cartel was disrupted anew. Reliable comparative statistics on platinum output were not available, but the direction of main trends is probably correctly shown in table 4. The four countries accounted for over 90 percent of world production.

It was believed that Russia had not been satisfied with the sales quotas assigned or forced upon her by the cartel, inasmuch as her production was no doubt rapidly increasing at the time, and she withdrew from the cartel in 1927. As a result of Russian competition, platinum prices fell to little more than one-fifth of their former level. Although the size of the quota assigned to Russia was not known, it was not likely that she had derived benefits from this action. Leaving the question of profits aside, it still did not seem possible that Russia was able to increase her sales fivefold to compensate for the fall in price by a larger intake of foreign exchange. It was conjectured that Russian actions at the time had been part of the general policy to increase sales abroad at any price, a tendency which became peculiar to Russian foreign trade in the years that followed.

According to an article in a German magazine which was widely accepted, the cartel was re-established in October 1931 in the form of the Consolidated Platinum Co., Ltd., London. It included Canadian and South African producers

13. Laurence Ballande, *Essai d'étude monographique et statistique sur les ententes économiques internationales* (Paris, 1936), p. 206.

14. Eugene Staley, *Raw Materials in Peace and War* (New York, 1937).

Table 4. *Production of Platinum and Related Metals (in Troy ounces)*

Country	1925	1930	1933	1937
USSR (est.)	54,000	100,000	100,000	100,000–135,000
Colombia	62,000	42,400	46,000	36,500
Canada	17,000	68,100	55,800	59,200
South Africa	5,500	61,000	9,100	39,500
TOTAL	138,500	271,500	210,900	235,200–270,200

*Sources:* The figures for the USSR were rough estimates taken from *Deutsche Bergwerks-Zeitung* (Essen), Mar. 24, 1944. It was not known if this estimate was for platinum only or also included the related metals. The statistics for Colombia, Canada, and South Africa were published in the *Economist* (London), June 25, 1938, p. 720. They included palladium, iridium, osmium, rhodium, and ruthenium.

and English and German distributing companies. A few weeks later the Colombian producers and Russia apparently joined the cartel.<sup>15</sup> Competition among the producers had caused substantial injury to the market, because it had undermined the buyers' belief in the stability of the value of platinum. The Russians were said to have reached a point where further price reductions would not increase sales, and were ready to rejoin the cartel. The quotas assigned by the cartel were as follows: Russia, 50 percent; Canada, 26 percent; Colombia, 9 percent; South Africa, 15 percent.

At the time, there was a tendency in some quarters to view this agreement as a defeat for Russia and Colombia, because their share in production was believed to have been higher than their quota. Although statistics cited earlier placed Russian production of 100,000 ounces at about only 40 percent of the world total, many sources claimed that this figure was much too low, and the opinion was common that Russian production actually was about 58 percent of the world total. In the absence of reliable statistics it could not be decided whether or not the Russians were in a poor bargaining position when they entered the cartel.

*Canadian Price Leadership.* About 1934 a turning point occurred in the platinum market as a result of which the commanding position in the industry passed to the Canadians, who became low-cost producers. In that year the International Nickel Company began to exploit the copper-nickel Froid mine in Ontario, where platinum was obtained as a by-product. The cost of production was limited to the expense of refining (which in the late thirties amounted to 7 to 8 shillings per Troy ounce), while the amount obtained became a function of the copper-metal production. Thus the Canadian output was no longer susceptible of restriction.

The volume of Canadian production of platinum (related metals not included) increased from 27,000 Troy ounces in 1933 to 139,000 in 1937;

15. *Wirtschaftsdienst* (Hamburg), Dec. 4, 1931, p. 1978.

by 1939 it reached 155,000, while Russian production for that year is estimated at 145,000 ounces (related metals possibly included).<sup>16</sup>

The low-cost position made the Canadian producers impervious to threats of competition, and they could dominate the market and regulate it with little regard to foreign producers. Colombia and South Africa were high-cost areas and were able to increase production only upon an increase in price. Circumstances of Russian production, though not known, were not believed to be in any way as favorable as those in Canada. Since price increases were contrary to the Canadian interests, whose problem was to broaden the demand for platinum, a considerable amount of research was undertaken which succeeded in increasing the utilization of platinum in industry. Yet to make this utilization possible the price of platinum had to be kept at £6 to £7.5, or one-quarter of the 1924–25 level. When in the course of the various financial panics of the thirties a tendency developed for platinum to be used by speculators for hoarding, the International Nickel Company interfered in order to prevent increases in price which would have reduced the industrial demand for the metal.

The situation therefore appeared to be as follows. The International Nickel Company fixed the price so as to ensure the marketing of their production. At that price the Russians also were able to sell a “sufficient” amount of their platinum. Thus they had no interest in underselling the Canadians, and an attempt to do so would have been futile as long as the price amounted to about £6 and the Canadian cost of production was less than 6 percent of this amount. It seemed, therefore, that no other course was open to the Russians but to follow the Canadian price.

In view of these circumstances, well-informed German sources were of the opinion that the Russians were no longer members of the platinum cartel. Other German sources somewhat less vaguely suggested that the Russians left the cartel in 1936.<sup>17</sup>

### Conclusion

Soviet policies with regard to international cartels in the period dealt with in the foregoing pages should be properly seen within the context of changes that had taken place in the structure of Russia's exports. Those changes were by no means inconsiderable.

In the last years before World War I the bulk of Russian exports consisted of agricultural and forestry products. In 1909–13 the share of the former in total exports amounted to 75 percent; the share of the latter to 9.8 percent; the share of the group as a whole thus constituting 85 percent of the total.

16. *Deutsche Bergwerks-Zeitung* (Essen), Mar. 24, 1944.

17. *Deutsche Bergwerks-Zeitung*, Mar. 24, 1944.

Toward the end of the Second Five-Year Plan this situation had changed rather drastically. Agricultural exports in 1936 were no more than 27 percent, while the share of forestry products had risen to 26.5 percent. This net decline of some 30 percent was counterpoised by an increase in the relative importance of industrial products, including mining products. The share of exports of the industrial group had grown from 16 percent in 1909–13 to 46 percent in 1936.<sup>18</sup>

These changes in the structure of exports were essentially, though perhaps not wholly, the result of the rapid industrial development that had taken place in the country since the end of the twenties. As a result, Russia for the first time appeared on world markets as a seller of commodities that were subject to regulations by international cartels. In this respect, however, a basic fact must be noted. Soviet exports of such commodities still constituted a very small share of total Soviet exports. For the purposes of this study the following estimate was prepared. Abstracting from petroleum products, which amounted to about 10 percent of the total, the aggregate value of internationally cartelized commodities in Soviet exports cannot have amounted to more than 3 percent of Soviet exports in the second half of the thirties. On the other hand, as was mentioned in the preceding pages, Soviet Russia's share in the world exports of some of the relevant products was by no means negligible.<sup>19</sup>

Two considerations follow from these data. It is clear that in the individual cases, international cartels would find it difficult to ignore a large exporter, and attempts on their part to come to an arrangement with the Soviet exporting organizations appeared easy to understand. What is more difficult to understand is the Soviet inclination to become a party to such arrangements. Precisely because of the insignificance of the Soviet exports of the relevant commodities in total Soviet exports, agreements most favorable to the Soviet Union with regard to both the volume of exports and the prices obtained could add only a pittance to the overall receipts of foreign exchange and could not possibly improve the aggregate profitability of Soviet foreign trade in any significant manner.

It is in the light of these circumstances that one must consider the conclusion that emerges from these case studies. Where the Soviets exported in cartelized markets they at some time or other associated themselves, or at least were suspected of having associated themselves, with cartels. *This means that the Soviets were willing to abandon their indubitable ideological aversion to cartels at a very low price indeed.* In fact, it seems clear that the Soviet approach

18. D. D. Mishustin, *Vneshniaia torgovlia i industrializatsiia SSSR* (Moscow, 1938), p. 110.

19. In some cases they actually were quite high. As far as asbestos was concerned, the Soviet share in the value of world trade in some years of the thirties even exceeded 20 percent, although the share of quantities exported was smaller, because the Soviets did not export the low-priced, nonspinning asbestos.

to the problem of cartels differed little from that of any private business firm or any group of business firms.

Such policies presumably were favored by the organizational structure of the Soviet monopoly of foreign trade, in which there were a great many export and import agencies. It is natural to assume that the bureaucracy of each individual agency was eager to achieve the best possible results in its sphere of activity and that in pursuing this aim it acted indeed as an ordinary business firm. At the same time, it is inconceivable that major decisions on policies in matters of this sort could be adopted and carried out without the very deliberate discussion and approval of the Soviet government. The latter must then be presumed to have been guided by a number of considerations. It is easy to imagine what those considerations are likely to have been. Among them the pride of place must have gone to the idea that in dealing with the capitalists and in selling in capitalist markets it was imperative to act like capitalists. It would not have been difficult to find appropriate quotations from Lenin to support this view, which could be further reinforced by some bits of Russian folklore: *S volkami zhit' po volch'i vy!* ("If you have to live with wolves, you must howl like a wolf"). To consort with cartels in export trade could easily have been considered to be a part of *amerikanskaia delovitost'* (American businesslike way of doing things), for which Stalin once found words of praise. Beyond that the Soviets may have been looking farther into the future. Industrialization was bound to lend increasing importance to the exportation of industrial products, and dealings with the cartels may well have been regarded as laying the foundations for the exports of such products in world markets at a later time when the Soviet share in total exports would no longer be insignificant. The only difficulty with this surmise is that during the thirties the volume of Soviet foreign trade was greatly reduced after having reached a peak in the years of the First Five-Year Plan; the idea of self-sufficiency was strong upon the minds of the Soviet leaders, and nothing betrayed the expectation of future large increases in the volume of foreign trade.

Still, whatever the actual motivations were, there is little doubt that they must have been exceedingly pragmatic. As such, to repeat what was said in the introductory pages, they harmonize very well indeed with a basic view that assigns to official ideology a most subsidiary role among the factors which in the aggregate shaped and molded the policies of the Soviet government.